

Message Text

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15

ACTION NEA-10

INFO OCT-01 ISO-00 EB-07 /018 W

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R 151510Z FEB 76

FM AMEMBASSY JIDDA

TO SECSTATE WASHDC 3723

INFO DEPT OF TREASURY

USDOC WASHDC

AMCONSUL DHAHRAN

AMEMBASSY KUWAIT

AMEMBASSY TEHRAN

UNCLAS JIDDA 1151

TREASURY FOR OSAA

E.O. 11652: N/A

TAGS: EFIN, ECRE., SA, US

SUBJECT: SURETY BOND/PERFORMANCE GUARANTEE TEAM MEETING WITH SAUDI
OFFICIALS

REF STATE 033886

1. SUMMARY: CONSULTATIONS WERE HELD BETWEEN USG/PRIVATE
INDUSTRY TEAM AND OFFICIALS OF MINFIN AND SAMA FEB. 14. IN LENGTHY
MEETING US SIDE PRESENTED THE CASE FOR ACCEPTING SURETY BONDS AS
AN ALTERNATIVE TO BANK AND ADVANCE PAYMENT GUARANTEES. SAG SIDE
INDICATED DEFINITE INTEREST IN THE PROPOSAL, ALTHOUGH EMPHASIZING
THE NEED FOR DETAILED INVESTIGATION OF ITS IMPLICATIONS. FOLLOW-UP
MEETING IS EXPECTED WITHIN NEXT FEW DAYS AFTER SAG STUDY OF
AGRUMENTS AND DOCUMENTATION PRESENTED. END SUMMARY.

2. US TEAM COMPOSED OF ECONOMIC COUNSELOR DANIELS,
MCFADDEN OF TREASURY, WITHERS OF AGC, LERCH OF SURETY, AND SELTZER
OF THE CORPS HAD BRIEF CORDIAL NON-SUBSTANTIVE MEETING WITH
SAMA GOVERNOR QURAISHI. IMMEDIATELY THEREAFTER, TEAM MET WITH SAUDI
TEAM COMPOSED OF BAHQAT, LEGAL ADVISOR, MINFIN, S.Y. SALAMA ASSIS-
TANT DIRECTOR FOREIGN DEPARTMENT OF SAMA, M. FAROOQI, BANKING
ADVISOR OF SAMA, AHMED ABDULLATIF DIRECTOR GENERAL FOREIGN
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DEPARTMENT SAMA, IBRAHIM SAIMS DEPUTY GENERAL MGR RIYADH BANK, AND

OMAR SAJEENY, DIRECTOR GENERAL BANKING CONTROL DEPARTMENT, SAMA.

3. US TEAM GAVE PRESENTATION ALONG THE LINES OF THE BACKGROUND PAPER AVAILABLE IN WASHINGTON ENTITLED, "BANK GUARANTEES VERSUS PERFORMANCE AND PAYMENN BONDS."

4. ABDUL LATIF IN CLOSING THE CONSULTATIONS STATED THAT THE SAG WOULD GIVE SERIOUS CONSIDERATION TO THE SURETY BOND APPROACH; THAT THEY APPRECIATED THE FINANCIAL CONSTRAINTS UNDER WHICH US FIRMS OPERATE BUT THAT THEY MUST WEIGHT CAREFULLY THE COSTS AND BENEFITS OF THE SURETY SYSTEM PARTICULARLY IN TERMS OF ANY ADDITIONAL COMPLEXITY WHICH THE SURETY SYSTEM INVOLVING ARBITRATION COULD ENTAIL. THEY EMPHASIZED THAT THEY DID NOT WISH TO ADD ANOTHER BOTTLENECK IN THE DEVELOPMENT PROCESS.

5. IN THE CORSE OF DISCUSSIONS, THE SAG REPRESENTATIVES RAISED A NUMBER OF QUESTIONS REGARDING THE SURETY APPROACH. IN PARTICULAR, THEY WERE CONCERNED WITH THE DEGREE OF COVERAGE BY SURETY BONDS, CONTRACTING PRACTICES OF OTHR MIDDLE EASTEERN COUNTRIES, THE NATURE AND STRUCTURE OF THE SURETY INDUSTRY, AND ITS REGULATION, BOND ING CAPACITY, AND LEGAL STANDING IN SAUDI ARABIA. OF THE ABOVE ISSUES, THE SAG WAS PARTICULARLY CONCERNED ABOUT HOW IT COULD EFFECTIVELY DEAL WITH THE SURETIES ISSUING BONDS FROM THE US. IT WAS EVIDENT THAT THE SAG REPRESENTATIVES HAD LIMITED FAMILIARITY WITH THE SURETY INDUSTRY AND WERE VERY CONCERNED ABOUT THEIR ABILITY TO GET THE SURETY TO ACT SWIFTLY AND RESPONSIVELY IN AN APPARENT SITUATION OF NON-PREFORMANCE.

6. IN A SEPARATE DISCUSSION, MESSRS. SAIMS, SAJEENY, AND SALAMA RAISED THE QUESTION OF HOW US LEGAL LENDING LIMITS FUNCTIONED. APPARENTLY, THE RAPID EXPANSION OF ECONOMIC ACTIVITY HAS PLACED SEVERE STRAINS ON THE SAUDI BANKING SYSTEM'S ABILITY TO EXTEND LOANS. CURRENT SAMA REGULATIONS NORMALLY LIMIT LOANS TO ANY ONE BORROWER TO 25 PER CENT OF CAPITAL AND SURPLUS AND UP TO 50 PER CENT FOR PUBLIC SECTION LOANS. THE SIZE OF PRESENT AND EXPECTED TRANS-ACTIONS MEANS THAT THE BANKS ARE BECOMING UNABLE TO SATISFY CUSTO-MERS. THE US TEAM DESCRIBED THE FUNCTIONING OF THE COMPTROLLER'S LEGAL LENDING LIMIT (10 PERCENT OF PAID-UP CAPITAL AND SURPLUS) RULES OF THUMB USED BY BANKS AND SURETIES TO UNCLASSIFIED

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DETERMINE EXPOSURE LIMITS BY CUSTOMERS, AND THE POSSIBLE USE OF DOMESTIC AND FOREIGN SYNDICATION AS A MEANS OF MOBILIZING COMMERCIAL BANK FUNDS.

7. ON SUNDAY, FEBRUARY 15, EDWIN JONES, PRESIDENT OF J.A. JONES, MET WITH GOVERNOR QURAIHI. IN THE COURSE OF DISCUSSIONS THE GOVERNOR QUERIED JONES ABOUT THE SURETY INDUSTRY AND THE WORKINGS OF SURETY BONDS. JONES SAID THAT THE GOVERNOR WAS ACTIVELY CONSIDERING THE

SURETY ALTERNATIVE AFTER CONSULTATIONS WITH HIS STAFF WHICH HAD MET WITH US TEAM FEBRUARY 14.

8. FOR BOWDEN: IF MCFADDEN STILL NEEDED TO ADVANCE COMMISSION MEETING, HE WILL RETURN DIRECTLY FROM IRAN, HOPEFULLY ARRIVING IN WASHINGTON MONDAY, FEBRUARY 23.

IF NOT, MCFADDEN WILL CONTINUE TO KUWAIT. IF MCFADDEN NOT REPEAT NOT NEEDED TO ADVANCE, PLEASE ADVISE ASAP.

9. PASS CONTENTS OF MESSAGE TO SPROUSE OF AGC IN WASHINGTON TEL. NO. 393-2040.

PORTER

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Message Attributes

Automatic Decaptioning: X
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Draft Date: 15 FEB 1976
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Decaption Note:
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Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
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Disposition Event:
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